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SUBJECT: PRESIDENT CHIRAC SPURS MICROCREDIT DEVELOPMENT

**1. SUMMARY:** As another way to quiet the unrest in French suburbs, President Chirac personally turned his attention to the development of micro-credit, notably in disadvantaged areas. At a recent roundtable, Chirac proposed giving more money to the social cohesion fund ("Fonds de Cohesion Sociale" - FCS), handing out more information about the FCS, and joining forces with the private financial sector to leverage micro-credits. Participants promised further action, in recognition of the President's interest as well as market opportunities. END SUMMARY.

#### President Chirac Highlights the Role of Micro-credit

**2.** On February 2, President Chirac convened a round table on micro-credits, saying "in the framework of the fight against unemployment and exclusion, micro-credit is a promising way, and an essential tool to allow job seekers to personally take care of their future by finding new jobs or by creating their own businesses, especially in disadvantaged areas. Encouraging micro-credit is fully part of the government social cohesion policy, which aims to revalue work and reward responsibility spirit, notably from people with the most modest origins." He defined micro-credit as credit to individuals who lack capital or effective guarantees, and who would not otherwise been able to get "social" consumer loans (often related to finding a job) or business loans to create micro-enterprises. Amounts required are very low but do not provide banks with adequate margins to cover lending costs.

**3.** Participants included Michel Camdessus, member of the Social Cohesion Fund ("Fonds de Cohesion Sociale" - FCS), Francois Jouven, Director of the financial institution Caisse des Depots et Consignations (CDC), and the chairmen of several major banks (Societe Generale, the Credit Agricole group, which merged with Credit Lyonnais "LCL", the Banques Populaires group, Laser et Cofinoga, Caisse Nationale des Caisses d'Epargne, and Credit Mutuel). Also present were representatives of the Association of Mayors and heads of non-profit associations. Members of the socialist party also were very much in evidence, notably Jacques Attali, the chairman of the international NGO PlaNet Finance (former President Mitterand's special counselor), Christian Sautter, chairman of France Active (Paris Deputy major, and former Finance Minister), and Marie Nowak, the chairman of the Association pour le Droit a l'Initiative Economique - ADIE" (former Laurent Fabius's special counselor). Other participants included heads of the Bordeaux Social Fund ("Caisse Sociale de Bordeaux"), the Start-up Network ("Reseau Entreprendre"), and the Catholic Assistance association ("Secours Catholique").

#### During Unrest in Suburbs, Pundits Sounded the Alarm

**4.** Jacques Attali argued that the development of micro-credit should be a government priority. Camdessus, as the head of the FCS's Orientation and Election Committee, emphasized the critical role of information in the successful development of micro-credit, saying that many potential beneficiaries have never dared to imagine that they could become entrepreneurs, and could ask bankers for credit. Micro-credit is not well known in France. According to an IPSOS's poll conducted in 2005, 66% of those surveyed said they had never heard about micro-credit loans, associating it wrongly with consumer credit. Only 18% of those surveyed knew of the start-up association ADIE, and only 7% of the France Active network.

#### President Details Actions

**5.** Chirac announced the GOF would be "giving a new dynamic to the FCS", which was created as part of the Social Cohesion Plan in 2005. FCS already is functioning, under CDC management, as a guarantee fund for banks granting micro-credit loans, and it was allotted 73 million euros over five years. This "new dynamic" will be achieved by:

-Amending the Return-to-Work bill ("Retour a l'emploi") to extend FCS's missions to funding assistance to holders of projects, a fragile population that banks are not used to deal with. The Parliament approved the amendment on February 9.

- Devoting more funds to assistance. At President Chirac's request, CDC committed to devote 5 million euros to fund 50 training-assistance experiments in disadvantaged areas. Assistance essentially relies on voluntary help by non-profit associations (see para 9 below).

16. Chirac also said the GOF will be "giving a new impulse to micro-credit" by removing obstacles to its development by promising that the government would do every thing possible to improve information to potential beneficiaries of micro-credit loans:

-The Ministry of Social Cohesion will diffuse clear and exhaustive brochures, notably in National Employment Agencies, Family allowances offices, and local centers for social actions.

-The Bank of France and CDC will create a Micro-credit Observation Center, to provide data on the number of micro-entrepreneurs and their experience.

-The government will encourage micro-credit for "precariousness problems", with appropriate interest rates, guarantees and assistance.

17. Chirac said the GOF will be "calling banks and financial institutions to fully demonstrate their commitment to social cohesion," asking them:

-To increase micro-credit initiatives, by creating and encouraging associations of banking executives and retirees who would help borrowers to define and achieve projects. Some banks agreed to this commitment.

-To make available to the public, in their annual reports, their achievements in the micro-credit field, their assistance in the creation of companies, and their actions in disadvantaged areas.

-To sign conventions with FCS. In 2005, 15,000 individuals benefited from social and business micro-credit loans. These loans were made at market interest rates, and ranged from 300 to 12,000 euros. The government objective for 2006 is to increase social micro-credit loans to 15,000, and to provide 60 million euros in professional micro-credits for the creation of 12,000 jobs. In 2007, and following years, the government plans to increase FCS's guarantees to 19 million euros to leverage 150 million euros in micro-credit loans made by banks, and boost the number of beneficiaries to 40,000.

18. Chirac also announced he is "planning a follow-up" by asking Camdessus to observe progress made by banks, and by convening a new round table before the end of 2006.

#### Banks Made Commitments to Involve Further in Micro-Credit

19. Bankers at the roundtable reacted positively to Chirac's proposals, committing to sign conventions with FCS, strengthen information, and aid beneficiaries of micro-credit loans with their projects. Camdessus affirmed: "bankers are ready to do more." The head of the Banques Populaires group proposed to ADIE that it would make available a portion of its 3 million members, saying "voluntary workers would guide company starters to understand contracts and fulfill forms." To Francois Xavier Bordeaux, the head of a regional social fund, the main thing is to create an efficient system "with unique windows to distribute loans worth 150 to 12,000 euros."

#### Mutual Banks are Significantly Involved in Micro-credit

10. Eleven mutual banks (notably, Credit Mutuel, savings banks, and the Banques Populaires group) are involved in micro-credit. Savings banks have granted 50 million euros in micro-credit loans since 2001, helping create 5,000 micro-enterprises and 5,000 jobs. The Banques Populaires group, which is a partner of ADIE and France Active, signed a convention with FCS in January 2006, committing to guarantee 50% of micro-credit loans totaling up to 150,000 euros over the next 3 years.

11. Other banks appear to be much less involved in micro-credit in France than mutual banks, with the exception of BNP Paribas, which is one of ADIE's partners and has a seat at the FCS's Orientation and Election Committee through its subsidiary Cetelem. BNP Paribas started to provide micro-credit loans to the unemployed and to re-employment beneficiaries (recipients of minimum incomes designed to facilitate new employment, "Revenu Minimum d'Insertion -RMI") in October 2004. During the November 2005 unrest in suburbs, BNP Paribas CEO Baudouin Prot said he realized that large enterprises/banks had to focus on "fast and efficient solutions" to address the crisis. In December 2005, the bank, which is present in the suburbs, announced a plan to create 700 micro-enterprises in disadvantaged areas, to provide assistance to children who have difficulties at

school, and to support local community life. BNP allotted 3 million euros to the plan for the next three years.

#### Associations Play a Key Role in Introducing Micro-credit

12. President Chirac applauded non-profit associations for their action in the micro-credit field. Associations such as ADIE, France Active and Initiative Réseau build financial bridges between the welfare system, the employment-enterprise system and banks. Micro-credit was introduced in France by ADIE in 1989 in an unfavorable environment characterized by administrative complexity and burdensome social taxes for the self-employed. Banking regulations, until recently, only allowed associations to lend their own capital, and set a ceiling on interest charges inconsistent with costs involved in micro-credit. The solution was to have associations act as intermediary for their clients with banks, which fund loans and cover part of the risk, with the government and local authorities, which provide the regulatory framework, and with the European Social Funds, which cover additional costs related to assistance and risk taking. In recent years, an amendment to banking regulations further facilitated micro-credit by authorizing associations involved in micro-credit to lend and to borrow funds they lend (April 30 2002 decree implementing the 5 of the article L 511-6 of the monetary and financial code as part of the article 19 of the 2001 May 15 law on New Economic Regulations).

13. The number of micro-credit loans granted by ADIE has increased 20-30% each year. The ADIE network allowed the creation of 34,000 enterprises, including 12% in disadvantaged areas, since 1997. The new public utility association status, provided by the State Council in January 2005, was intended to encourage donations to the association (donations are subject to a 60% tax deduction up to a certain portion of income, a limit which is adjusted every year). Despite rapid growth in micro-credit loans from 5,000 in 2002 to 8,000 in 2004, Nowak said that ADIE was still only involved in a small portion of the market. A number of associations, notably France Active, Initiative Réseau, Cerise, Finansol and Coordination Sud participate in the market. Even the religious non-profit association, Secours Catholique, started to sign conventions with banks in 2004, notably with Laser Cofinoga, a partner of ADIE and France Active. A representative of Secours Catholique explained the key role of micro-credit since "40% of the French population has no access to regular bank loans, and has to use revolving credit, the cost of which may have disastrous effects on over-indebtedness."

#### Information on Beneficiaries of Professional Micro-credit

14. Based on ADIE's information, more than 33% of business creators in France were the unemployed (excluding those involved in informal survival jobs in disadvantaged areas). Disadvantaged areas account for 20% of micro-credit loans. In these areas, around 20% of beneficiaries are illiterate, and are more successful in achieving their projects because of their experience than the 20% who are young people with academic backgrounds but who have been laid-off. 94% of micro-credit loans to creators of micro-enterprises are repaid, a better result than for regular loans to creators of companies. To Nowak, "it is possible to get people out from poverty thanks to micro-credit loans." INSEE, the National Statistical Agency, estimates the overall poverty rate in France at 6.3% in 2003. The poverty line for an individual was set at 7,740 euros for 2003, which is equal to 50% of the median income. Interestingly, Nowak estimated that 10% of the unemployed-inactive people, or around 300,000 individuals, are potential beneficiaries from micro-credits.

#### Commentators Stress President's Personal Intervention

15. The President's advisers have said that developing micro-credit is dear to President Chirac, noting "he is changing his gear ratio" to social issues usually supported by leftist politicians. In the same vein, commentators underlined that the President wants to put his own touch on the government's reduction of unemployment policy, and was reaching into leftist ideology to do so.

#### Comment

16. President Chirac's personal commitment to the development of micro-credit, although it can be viewed as a preemptive raid on leftist social issues, also reflects a real government concern about unemployment (which is still high at 9.5%, despite recent decreases) and inactivity (for people getting welfare benefits and not having the option to integrate into the economy). The November 2005 unrest sounded a warning about the financial situation of the unemployed and the inactive; however, the government objective for 2006 and 2007 does not look ambitious when compared to the potential need estimated by ADIE. The

French micro-credit market is likely to develop in the long term for the same political, social and demographic reasons it gathered steam in the U.S. France still has a necessity to reform welfare and encourage individuals to support themselves through employment, including self-employment. The French must find ways to grapple greater uncertainty due to corporate downsizing and outsourcing jobs. With micro-credit available, self-employment may also develop with the increasing percentage of women in the workforce, the growth in immigration, an aging population, and a decline of rural economies.

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